



American Rescue Plan Act Fund Distributions

ARPA

American Rescue
Plan Act



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American Rescue Plan Act Fund Distributions Audit

Executive Summary

Objective

This audit was conducted to determine whether programs were established in accordance with the ARP Act, adequate controls are in place for the disbursement of funds, and if control improvements recommended from the CARES Audit have been implemented.

Background

The American Rescue Plan Act (ARPA) established a \$1.9 trillion coronavirus relief fund to address negative impacts of the pandemic.

The City spent approximately \$42 million in ARPA funds in FY22. Of this, \$28.5 million (68%) was spent on Emergency Rental Assistance. Additionally, the City's FY22 Recovery Plan Performance Report outlined \$106.8 million in planned spending, including \$19 million for workforce development.

Conclusion

ARPA-funded programs were established in accordance with funding requirements. Adequate controls over the disbursement of funds were established and incorporated most control improvements recommended in the CARES Audit. One recommendation remains to be implemented.

Highlights

The City established programs in compliance with Federal ARPA guidelines.

- ARPA established funds for responding to negative economic impacts of the pandemic, replacing public sector revenue lost, providing premium pay for essential workers, and investing in water, sewer, and broadband infrastructure
- Auditors reviewed programs established through FY22
 - Controls exist to ensure that the City establishes programs that meet ARPA requirements

Internal controls for the Emergency Rental Assistance program were adequately designed and operating effectively to ensure funds were distributed on behalf of eligible participants.

- DreamKey staff obtained, reviewed, and confirmed participant eligibility and payment documentation
- Housing staff periodically monitored DreamKey by verifying eligibility for a sample of program participants

Housing and Neighborhood Services and Economic Development have adequately addressed all but one recommendation from the CARES Funding audit.

- See Appendix A for recommendation status update
- Housing should ensure DreamKey invoices include contractually required details of relief activity

Actions Planned

Given that the ARPA-funded ERA program is now fully expended, Housing will administer future programs on a reimbursement basis and require invoices be supported with adequate documentation.

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Objective

This audit was conducted to determine whether:

- Programs are established in accordance with the American Rescue Plan Act,
- There are adequate controls in place for the disbursement of funds, and
- Control improvements recommended in the CARES Act Funding Distributions for Small Business Recovery and Housing Relief Audit (September 2021) have been implemented

Background

In March 2021, the U.S. Congress passed a \$1.9 trillion coronavirus relief package, the American Rescue Plan Act (ARPA). The funds were to be used for the following expense categories:

1. Responding to the public health and negative economic impacts of the pandemic,
2. Replacing public sector revenue lost from the COVID-19 pandemic,
3. Providing premium pay for essential workers, and
4. Investing in water, sewer, and broadband infrastructure.

According to the City of Charlotte's FY22 Schedule of Expenditures of Federal and State Awards, the City spent approximately \$42 million in ARPA funds. Of this, \$28.5 million (68%) was spent on Emergency Rental Assistance. Additionally, the City's FY22 Recovery Plan Performance Report¹ outlined \$106.8 million in planned spending. Workforce Development and Employment makes up \$19 million (18%) of this amount.

Scope, Methodology, and Compliance

Scope

This audit focused on the \$28.5 million of funds expended under the Emergency Rental Assistance program in FY22 and the FY23 partner selection process for the Workforce Development program. Auditing these programs allowed auditors to determine if recommendations from the CARES audit were implemented. The audit scope did not include a review of any ARPA expenses for City operations or enterprise funds.

Methodology

To achieve the audit objectives, auditors performed the following:

- Reviewed federal laws, regulations, and City procedures related to ARPA funds
- Interviewed relevant Finance, Economic Development, and Housing & Neighborhood Services staff
- Evaluated ARPA funds distribution and monitoring controls for selected programs

¹ The U.S. Department of the Treasury requires the City of Charlotte to submit this report annually.

- Reviewed program expenditures using statistical and judgmental sampling
- Reviewed project funding requests to determine COVID-19 relief programs budget allocations were appropriately approved and expenditures were tracked
- Reviewed new processes and procedures in place to address recommendations made in the CARES Audit

Auditors assessed the reliability of Salesforce² data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Compliance

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Government auditing standards require that we determine which internal controls are material to the audit objective(s) and obtain an understanding of those controls. To evaluate internal controls, the City Auditor's Office follows the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO Framework) as included in Standards for Internal Control in the Federal Government (GAO Green Book).

In planning and performing the audit, auditors obtained an understanding of the processes used throughout ARPA-funded programs' development and administration and the associated internal controls, assessed the internal control risks, and determined the following internal control components were significant:

- **Control Environment** – The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization
- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks
- **Monitoring** – The activities management uses to assess the quality of performance over time

Any internal control deficiencies that are significant within the context of this audit's objective(s) are stated in the Findings and Recommendations section of this report. For additional information regarding internal control components and the related principles of internal control, please see Appendix B.

² The system used to maintain and track Emergency Rental Assistance program expenditures.

Findings and Recommendations

1. The City established programs in compliance with Federal ARPA guidelines.

The U.S. Department of Treasury issued guidance to local governments for permissible uses of ARPA funds. As noted in the background section of this report, permissible uses include responding to the public health and negative economic impacts of the pandemic.

Auditors reviewed the 11 ARPA projects that were established in the City's financial system as of June 30, 2022. Finance and the City Manager's Office (CMO) monitored the City's use of funds through the submission of Project Funding Approval Request forms. This form, completed by the requesting department, included the planned use of funds and which qualifying use the program would meet. Before funds were made available for disbursement, all request forms were approved by the applying department's director, the Chief Financial Officer, and the Special Assistant to the City Manager. City Council provides final approval of all programs. These multiple reviews and approvals ensure the City meets federal requirements for the use of ARPA funds.

2. Internal controls over the Emergency Rental and Utility Assistance program were adequately designed and operating effectively to ensure funds were distributed on behalf of eligible participants.

City Council's stated goal was to provide funding to residents who were struggling financially to pay rent and/or utilities. The Emergency Rental and Utility Assistance program (ERA) was designed with transparent eligibility criteria and award distribution processes.

Housing & Neighborhood Services (Housing) contracted with DreamKey Partners (DreamKey) to administer the housing relief programs. DreamKey tracks applications and maintains related documentation using the software platform Salesforce. The system allows DreamKey staff to review eligibility documentation and approve assistance payments.

As of June 10, 2022, 5,088 ERA grants totaling \$21,252,042 had been approved. Using statistical random sampling, auditors selected and reviewed 30 grants (0.6%) totaling \$94,526 (0.4%) to verify that controls were operating as intended and applicant eligibility was documented and verified. In addition, Housing staff periodically monitored DreamKey performance by confirming a sample of eligibility determinations.

3. Housing and Economic Development adequately addressed all but one of the recommendations made in the CARES Audit report.

Eight recommendations were addressed to Housing and Economic Development (see Appendix A) in the FY22 CARES Audit report. All recommendations were adequately addressed, except for recommendation D1b, related to reconciliation of expenditures.

Housing is responsible for managing the ERA program and for monitoring the DreamKey contract. This contract included program administration fees totaling \$3 million (9% of the total contract). The terms of the contract require monthly reporting of relief activity details, including documentation for direct costs of administration.

The CARES Audit recommended Housing improve its monitoring procedures by ensuring DreamKey reconciles individual grantee payments to DreamKey invoice requests (see Appendix, Finding D1b). Auditors reviewed FY22 invoices for the ERA program and noted no detail of relief activities was included; therefore, Housing could not reconcile/compare DreamKey payments to grantee payments. The lack of review of supporting documentation increases the risk that the City will pay for services not rendered.

Recommendation 1: Housing should enforce the contract terms and require DreamKey to submit relief activity details when invoicing the City. Housing should review the relief activity detail for reasonableness and accuracy before authorizing payment.

Value Added: Compliance; Risk Reduction

Housing & Neighborhood Services Response: Agree. Funding for ERA is now fully expended. In future programs, Housing Services will administer expenditures on a reimbursement basis. Before approving future invoices for payment, Housing staff will ensure invoices are supported with adequate documentation. This process will be effective beginning January 2023.

Conclusion

ARPA-funded programs were established in accordance with funding requirements. Adequate controls over the disbursement of funds were established and incorporated most control improvements recommended in the CARES Audit. One recommendation remains to be implemented.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council and subsequently posted to the [Internal Audit website](#).

Appendix A

CARES Act Funding Distributions for Small Business Recovery and Housing Relief Audit Recommendation Status

Status	Finding	Recommendation	Action
	B1 - The Access to Capital grant programs were reasonably designed to meet City Council's guidelines. Reliance on self-certification increased the risk of ineligible applicants receiving a grant.	In the future, Economic Development should obtain documentation that allows verification of all eligibility requirements and if necessary, request additional documentation from the applicant prior to distribution of funds.	As of August 2022, Economic Development did not have any programs (or pending programs) that directly involved recipient eligibility. Internal Audit did test another program, Emergency Rental Assistance, and found documentation of eligibility was required. Should ED implement a program involving eligibility determination(s), it will be considered in future audit planning.
	B2 - Exceptions were noted in program implementation and verification of participant eligibility.	Funds should be recovered from ineligible applicants.	Economic Development has completed a review of potential ineligible funds and found that either: -additional documentation was provided that made an applicant eligible (e.g., originally submitted tax form was incorrect, refiled, and resubmitted to ED), or -funds were sent to Finance A/R for collections
	B3 - Eligibility criteria for the Hotel and the Food Service Recovery Grant Programs were adequately designed.	When establishing eligibility criteria for future programs, the City should consider accessibility of information from external sources such as Mecklenburg County.	Economic Development will consider information from external sources such as Mecklenburg County; however, during FY22 ARPA audit planning, ED noted that there were no opportunities to use external information.
	C1 - Economic Development should ensure that subrecipients implement inventory controls over assets purchased with CARES Act funds.	Economic Development should ensure that subrecipients establish adequate controls to manage the distribution of assets.	Economic Development informed training partners that prior approval must be obtained from the City before purchase of any gift cards. Training partners were provided with the City policy regarding safe keeping of assets and on-going inventory maintenance.
	C2 - Exceptions to grant eligibility requirements should be documented.	Economic Development should obtain all required eligibility documentation from applicants as detailed in the Thrive Workforce Partner Grant program design. Exceptions to any requirements should be documented.	As part of testing during the FY23 ARPA audit, auditors evaluated the system ED uses to award grants. Scoring appears consistent and reasonable. ED's summary comments show additional research was performed if a judge/panelist requested additional info re: applicant eligibility. The provision of required eligibility documents was required for an organization to be awarded funds.

Appendix A

CARES Act Funding Distributions for Small Business Recovery and Housing Relief Audit Recommendation Status

Status	Finding	Recommendation	Action
	D1a - Housing & Neighborhood Services should improve its monitoring procedures.	A robust monitoring process should be developed to ensure DreamKey is adhering to contract performance provisions and meeting federal reporting requirements. Housing should ensure that monthly reports are submitted timely and contain the required documentation.	Per Housing, the new grant management system Salesforce, implemented by DreamKey in February 2021, has more robust reporting features that allows for better monitoring of program activity and ongoing reconciliation of payments. As part of the FY23 ARPA audit, Housing provided Internal Audit with evidence of subrecipient monitoring of the ERA program with two reports dated November 2021 and March 2022.
	D1b - Housing & Neighborhood Services should improve its monitoring procedures.	DreamKey should reconcile all individual grant payments previously issued by Socialserve. Housing should ensure that DreamKey is performing timely reconciliations of individual grant payments to total funds disbursed.	Auditors reviewed FY22 Dreamkey invoices for the ERA program and noted no detail of relief activities was included; therefore Housing could not reconcile/compare DreamKey payments to grantee payments. (See Finding #3)
	D2 - Controls to ensure eligibility were not consistently followed.	Housing should ensure all applicant documentation supports eligibility requirements and is properly maintained and accessible. Income of all household members over age 18 should be documented for determination of AMI eligibility.	In February 2021, DreamKey implemented a new grant management system, Salesforce, to be used for the rent and utility relief grant programs. The system includes more robust reporting and data analytic capabilities, and requires submission of supporting documentation, before an application is accepted. This system was utilized with the next round of federal stimulus money through the ARP Act, and for funds distributed through Housing's Emergency Rental Assistance (ERA) program. Evaluation of this system and Housing's controls was performed as part of the FY23 ARPA audit.

Appendix B

The Five Components and 17 Principles of Internal Control

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.
9. Management should identify, analyze and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Information & Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate a monitoring mechanism that monitors both internal and external activities that impact the control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.